Telia AB

The Telia Group

Interim Report
January–March 2000

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INTERIM REPORT

January–March 2000

- SALES ADVANCED 5.5%, ADJUSTING FOR DIVESTED BUSINESSES, TO MSEK 12,857.
- CAPITAL GAINS LIFTED OPERATING INCOME TO MSEK 3,382.
- MOBILE SERVICES CONTINUED GROWING APACE AS REVENUES ROSE 25%.
- THE CARRIER PRESELECT REFORM AND PRESSURE ON PRICES REDUCED SALES IN THE FIXED TELEPHONY BUSINESS IN SWEDEN.
- BARTERED CAPACITY GAVE ACCESS TO FIBER-OPTIC NETWORKS IN NORTH AMERICA.

The Period in Brief

MSEK	Jan–Mar 2000	Jan–Mar 1999	Jan–Mar 1998
Net sales	12,857	12,397	11,338
Sales growth (%)	3.7	9.3	7.2
EBITDA	5,218	2,528	2,554
EBITDA margin (%)	40.6	20.4	22.5
Operating income	3,382	682	742
Operating margin (%)	26.3	5.5	6.5
Income after financial net	3,436	682	688
Interest coverage rate (multiple)	14.7	4.6	4.5
Net income	2,390	480	487
Earnings per share (SEK)	272	54	55
Investments	4,644	2,814	2,120

MSEK	Mar 31 2000	Dec 31 1999	Dec 31 1998
Balance sheet total	83,305	76,604	67,278
Capital employed	57,707	50,936	43,440
Operating capital	41,449	39,160	34,921
Net interest-bearing liability	7,623	7,527	6,767
Return on capital employed (%)	17.7	14.4	17.6
Return on equity (%)	20.2	14.2	19.2
Equity/assets ratio (%)	40.0	41.0	41.5
Debt/equity rate (multiple)	0.22	0.24	0.24
Number of employees	30,589	30,643	30,593

CEO's Comments

Our areas of growth continued to report strong advances. The mobile business significantly boosted sales and earnings. Demand for Internet and broadband access is increasing rapidly. The international carrier business lifted sales in IP-based traffic in Europe and other segments.

The strategic investments that Telia is making in the Internet, broadband, and carrier field are aimed at supporting the Company's market position and growth in the long run. In the short run, these investments will have a negative impact on operating income.

Weaker sales for fixed telephony in Sweden should be viewed in light of the preselect reform and tariff rebalancing carried out.

Telia continues to concentrate its operations. During the period, a decision was made to sell the Swedish cable-TV business, float the shares in the directory business, and sell the Group's shareholding in Eircom.

Stockholm, May 8, 2000

Jan-Åke Kark
President and CEO

Sales

The Telia Group's net sales for the first quarter totaled MSEK 12,857, up 3.7% from the same period the preceding year. Adjusting for divested businesses, the increase was 5.5%. The level of prices for the Group's services and products declined 6%, which means that sales volume rose 12%.

Mobile services in the Swedish market were the main contributors to revenue growth. Greater traffic volumes in the mobile networks and a steady stream of new customers helped the Mobile business area lift external net sales 25%.

The international carrier business increased its sales of telephony traffic and IP-based traffic to other operators and service providers in the European market. Sales by the international carrier business surged 49%.

External net sales by service

	Jan–Mar 2000		Jan–Mar 1999	Full Year 1999
	MSEK	%	MSEK	MSEK
Fixed services	8,380	-3.1	8,647	34,043
Telephony	5,461	-8.6	5,976	23,121
Leased lines	396	0.3	395	1,560
Data communications	440	-17.6	534	1,919
Internet/broadband	357	5.0	340	1,356
International carrier	629	49.1	422	2,137
Network wholesaling, Nordic markets	687	38.2	497	2,218
Other	410	-15.1	483	1,732
Mobile services	2,317	24.7	1,858	8,386
Information services	817	50.2	544	4,283
CPE and service	786	-7.5	850	3,585
Other	557	11.8	498	1,824
Total	**12,857**	**3.7**	**12,397**	**52,121**

The network wholesale business in the Nordic countries increased sales to operators and service providers 38%.

In the Nordic retail market, sales of fixed telephony decreased 9%. Adjusting for the divestiture of Norwegian operations in early 2000, the decrease was 8%. The reason was substantial price cuts in Sweden and the preselect reform carried out in the autumn of 1999. Less revenue for the retail business was partly offset by more revenue for interconnect traffic in the wholesale business.

During the quarter, tariffs were rebalanced for fixed telephony in the Swedish market, one aspect of which was introducing local calling rates for domestic calls.

Demand for Internet and broadband access remained strong. Sales advanced 11.6%, adjusted for the divestiture of the Norwegian operations.

The Y2K problem acted as a brake on sales of data communications and customer premises equipment (CPE) and customer financing, as many companies chose to delay IT investments. Sales of data communications declined 10.6%, adjusted for the divestiture of the Norwegian operations.

Earnings

Group operating income rose strongly from one year previous. Operating income reflected capital gains of MSEK 1,492 on the divestiture of operations in Norway.

Adjusted operating income, which does not include capital gains and personnel restructuring, also rose sharply. The improvement was chiefly attributable to telecom investments outside the Nordic countries in the Enterprises business area and mobile operations.

Adjusted operating income and operating income

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Mobile	498	432	2,316
Carrier & Networks	1,073	1,182	3,392
Business Solutions	152	185	578
People Solutions	182	408	1,597
Enterprises	544	-923	1,490
Other, Group-wide	-383	-467	-2,646
Adjusted operating income	**2,066**	**817**	**6,727**
Personnel restructuring	–	-144	-722
Common pension commitments etc.	-176	-321	-37
Year 2000 compliance	–	-77	-604
Capital gains/losses	1,492	407	582
Operating income	**3,382**	**682**	**5,946**

Telecom investments outside the Nordic countries boosted income MSEK 1,514, primarily attributable to the Unisource companies. Most Unisource companies were divested in 1999 and thus no longer burdened the Telia Group's earnings. Also, the Unisource subsidiary D-plus was sold, adding MSEK 1,004 to income for the period.

Ongoing healthy growth in the mobile market led to the Mobile business area achieving 15% stronger earnings.

For the People Solutions and Business Solutions business areas, income declined as a result of price cuts and slower growth in traffic for fixed telephony in Sweden.

The Carrier & Networks business area reported somewhat weaker earnings than in 1999. Income was stronger for the wholesaling business in the Nordic countries, while for International Carrier income sagged owing to expenditure for expansion.

Financial Position

The Group is in a healthy financial position. The equity/assets ratio was kept level thanks to an improvement in income in line with the expansion of total assets. The rate of turnover of capital slowed slightly because of reduced sales growth. The current rate was unchanged.

MSEK	Jan–Mar 2000	Full Year 1999	Full Year 1998
Growth of the balance sheet (%)	8.7	13.9	2.1
Rate of turnover of capital (multiple)	0.70	0.72	0.74
Current rate (multiple)	0.97	0.97	0.77
Equity/assets ratio (%)	40.0	41.0	41.5

The balance sheet total expanded 9% from year-end 1999. The expansion resulted primarily from investments and

improved earnings in associated companies. Investments were direct as well as indirect, through short-term lending to pay the additional consideration for Eircom shares.

Tangible fixed assets were virtually unchanged, as investments and depreciation were about equal. The proportion of all assets represented by fixed assets kept declining, to 68% at March 31, 2000, compared to 70% at December 31, 1999.

Financing

Operating cash flow was negative. Less cash flow from operating activities and high net investment were not offset by the reduction in working capital.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Operating cash flow	-2,597	-2,282	-532
Cash flow for the period	-1,003	128	1,019
Net cash flow	-96	-1,841	-760

In the latter part of 1999, the Group expanded its short-term investments as a precaution against a possible liquidity crunch at the turn of millennium. The investments were subsequently returned to their normal level. These actions were reflected in cash flow for the period, which consists of a change in liquid funds.

Investments

Group investments were almost 65% higher than in the same period in 1999.

Shares and participations accounted for the majority of the increase. For approaching license payments, MSEK 1,542 was invested in the Brazilian company Tess and MSEK 235 converted from loans to share capital. Also, MSEK 690 was invested in telecom operations in Russia.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Jan–Mar 1998
Investments			
Goodwill	13	2	0
Other intangible assets	86	16	45
Properties	382	12	56
Machinery and equipment	1,717	1,538	1,182
Fixed telephony installations	*325*	*381*	*300*
Mobile telephony installations	*179*	*196*	*344*
Other machinery and equipment	*1,213*	*961*	*538*
Shares and participations	2,446	1,246	837
Total	**4,644**	**2,814**	**2,120**

Investment in properties also jumped, owing to the purchase of an office building in Stockholm.

Human Resources

The number of employees was more or less unchanged, 30,589 at March 31 (30,643 at year-end). The divestiture of operations in Norway reduced staff numbers by 290.

Changes in Group Structure

In January, five new business areas were formed: Mobile Communications, Carrier & Networks, Business Solutions, People Solutions, and Enterprises.

The Mobile business area is responsible for the mobile business. Carrier & Networks is responsible for network wholesaling in the Nordic region and the international carrier operation.

The Business Solutions and People Solutions business areas are the Group's service providers in their respective retail markets.

The Enterprises business area includes the business units Infomedia, Systems and Support, Financial Services, and telecom interests outside the Nordic countries. The area also includes the Group's business development units and several support units.

In February, an additional 19.9% of the shares in the Brazilian company Eriline Cellular S.A. were acquired, boosting Telia's stake to 49.9%. Eriline owns a minor shareholding in the mobile operator Tess S.A., which operates in the state of São Paulo. In February, Telia acquired 29.5% of the shares in Luxembourg-based First National Holding S.A., which has holdings in several mobile and fixed network operators in northwestern Russia. At the start of April, Telia became the owner of 11% of the shares in Netia 1 Sp. z o.o. The company, in which Telia's associated company Netia Holdings S.A. owns an additional 38%, has been awarded a license for long-distance telephony in Poland. At January 1, 2000, the majority of the Group's operations in Norway was sold to Enitel ASA. Telia will supply some services to Enitel.

Telia's Board of Directors made a policy decision in February to float shares in the Group's directory business and to sell the Group's Swedish cable-TV operations. In March, a policy decision was made to sell the stake in Eircom plc.

Review of Business Areas

MOBILE

Net sales advanced 19% from the same period in the preceding year. The price level declined 4% on average, so sales volumes rose 23%.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	2,824	2,375	10,436
of which external	2,317	1,858	8,386
Adjusted operating income	498	432	2,316
Operating income	509	417	2,337
Adjusted EBITDA margin (%)	28.3	29.7	33.3
EBITDA margin (%)	28.6	29.1	33.5
Investments	974	357	1,261
Sweden			
Net sales	2,682	2,296	10,009
of which external	2,186	1,782	7,971
Adjusted EBITDA margin (%)	36.8	35.2	40.1

Healthier sales improved earnings. The Danish and Finnish operations reported losses, although in Denmark stronger sales improved the results. The number of customers increased during the period, from 170,000 to 179,000. In Finland, a roaming agreement was signed with Radiolinja that enables Telia to provide nationwide coverage. During the period, the number of customers soared, from 33,000 to 78,000. At the same time, higher costs of marketing and sales had a negative impact on earnings.

Swedish market sustains quick pace of growth

Growth in Sweden came from GSM, which boosted the number of customers from 2,348,000 to 2,517,000. The prepaid card, Telia Refill, delivered the strongest growth. Sales of the prepaid card passed the million mark during the quarter—the number of card customers increasing from 923,000 to 1,039,000—making Telia the leading supplier of prepaid card subscriptions in Sweden.

The number of NMT customers continued declining, from 290,000 to 261,000.

The total number of customers in the Swedish market was up 140,000 for the period, at 2,778,000.

The volume of outgoing traffic from the business area's mobile networks in Sweden grew 19%, incoming traffic 26%.

The number of text messages (SMS) mushroomed. During the first quarter, 25 million text messages were sent through the GSM network, compared to about 8 million during the same period in 1999.

To stimulate the use of mobile phones during off-peak periods, the tariffs for evenings and weekends were slashed, from SEK 2.00–2.50 per minute to SEK 0.80 per minute.

Strategic agreements with partners

Numerous new services were launched, while key strategic agreements were signed with partners.

To boost transmission capacity for mobile data, during the quarter the business area began upgrading the GSM network using "High Speed" technology, which boosts the data transfer rate from 9.6 kbps to 28.8 kbps.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
Sweden	**2,682**	**2,296**	**10,009**
Mobile telephony	2,545	2,218	9,646
Fixed charges	341	305	1,236
Traffic charges	1,442	1,282	5,645
Interconnect and roaming charges	762	631	2,765
Pagers etc.	137	78	363
Other Nordic markets	**142**	**79**	**427**
Denmark	95	68	357
Finland	47	11	70
Total	**2,824**	**2,375**	**10,436**

In the first quarter, Telia became one of the first operators in the world to launch the Global Area Network service, a new generation of satellite services with transfer rates comparable to ISDN rates (64 kbps). The service uses INMARSAT's satellite system and thus covers a large part of the Earth's surface.

Together with Volvo and Ericsson, the business area started a company to develop wireless applications for the automotive industry: WirelessCar AB. In April 2000, an agreement was signed with Oracle to form a jointly owned company to develop mobile Internet services for the global market.

In the first quarter, Telia acquired 29.4% of First National Holding, which owns 85% of the Russian investment company Telecominvest. The purchase price was MSEK 690. Telecominvest has stakes in some 30 telecom companies, chiefly in northwestern Russia. The biggest company is NorthWest GSM, in which Telecominvest owns 45%.

CARRIER & NETWORKS

Net sales for the business area were on a par with sales in the same period the preceding year. The price level declined 10% on average, so sales volumes rose 10%. Sales to external operators and service providers surged 34%, while sales to Telia declined 6.4%.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	6,275	6,500	25,347
of which external	1,389	1,036	4,619
Adjusted operating income	1,073	1,182	3,392
Operating income	1,395	1,173	3,288
Adjusted EBITDA margin (%)	35.6	35.8	32.5
EBITDA margin (%)	40.7	35.6	32.1
Investments	1,088	933	5,066
Sweden			
Net sales	5,890	5,993	23,930
of which external	1,084	876	3,623
Adjusted EBITDA margin (%)	37.2	38.3	33.3

Adjusted operating income decreased. International Carrier reported weaker earnings because of the costs of expansion. Income from the network wholesaling business in the Nordic countries improved during the quarter.

Demand for transport of IP traffic grew

The international carrier business lifted sales 8%, while prices dropped 20% on average. In other words, sales volumes grew 35% during the period.

Greater volumes were a result of more transport of telephony traffic in Europe and of heightened demand for transport of IP traffic. The volume of IP-based traffic expanded 50%. Price cuts of a comparable size meant that net sales ended at the same level as one year previous.

During the quarter, contracts were signed for the sale of infrastructure for GSEK 1.6. In addition to this, prices were quoted for an additional GSEK 2.5.

Decision for submarine cable in the Baltic Sea

Investments in the international carrier business totaled MSEK 395, the majority of which were to expand the pan-

European fiber-optic Viking Network. At the start of the year, a decision was made to upgrade the network to 2.4 Gbps. Also, a decision was made to invest in a new submarine cable between Turku, Hangö, and Helsinki, as the first stage in a Baltic network ring.

Swaps give access to networks in North America

To extend the geographic reach of the network, the business area barters network capacity with other operators. Two such barter deals have been made so far. One is with the Canadian network operator Worldwide Fiber, and the other with the U.S. operator Williams Communications. These transactions give the business area access to fiber-optic networks that will include many major cities in North America.

Sales to operators and service providers outside Telia rise

Net sales for the network wholesaling business in the Nordic countries were somewhat less than one year previous. The price level was cut 8% on average, so sales volumes increased 2%.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
Network wholesaling, Sweden	5,180	5,394	21,425
Network wholesaling, other Nordic markets	263	383	1,588
International Carrier	863	802	3,466
Contracting	1,565	1,463	6,444
Less intercompany sales	-1,596	-1,542	-7,576
Total	**6,275**	**6,500**	**25,347**

Traffic volumes supplied to Telia in the Swedish market declined 3%, while traffic volumes to external operators and service providers doubled. Most external sales consisted of interconnect traffic with other operators. The decline in the other Nordic countries reflected the divestiture in Norway.

In March, the fixed access network was opened to outside players on commercial terms. Three general agreements have been signed so far with operators outside the Telia Group.

In the first quarter, work commenced to supply households in the Swedish market with broadband access.

BUSINESS SOLUTIONS

Net sales dropped 12%, taking into account the divestiture of the Norwegian operations early in the year. Declining sales resulted from prices that were 8% less than one year previous and from the implementation of the preselect reform in the autumn of 1999.

Adjusted operating income deteriorated, chiefly owing to price cuts and a lower volume of traffic for fixed telephony in Sweden.

Denmark and Finland continued to report losses, though the Danish operations improved profitability during the period.

In the Swedish market, traffic volumes from fixed to mobile networks increased, while nationwide and international traffic decreased.

Conventional fixed subscriptions increased in Sweden by 19,000 to 1,020,000 during the period.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	3,392	3,922	14,878
of which external	2,775	3,039	11,720
Adjusted operating income	152	185	578
Operating income	866	142	375
Adjusted EBITDA margin (%)	6.6	6.9	5.7
EBITDA margin (%)	27.6	5.8	4.3
Investments	112	39	243
Sweden			
Net sales	3,236	3,621	13,892
of which external	2,628	2,745	10,661
Adjusted EBITDA margin (%)	8.2	10.1	9.1

Heightened demand for ISDN

Sales of ISDN kept growing, and the number of ISDN channels increased 11,000, to 446,000. Sales of Centrex, Telemöten teleconferencing, and virtual call centers achieved satisfactory growth, especially in the segments for small and medium-sized enterprises. Sales of these products advanced 34% overall.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
Fixed telephony	1,916	2,014	8,212
Network capacity	423	465	1,861
Internet/broadband	177	133	791
Data communications	434	553	2,002
Other	442	757	2,012
Total	**3,392**	**3,922**	**14,878**
Net sales by market			
Sweden	3,236	3,621	13,892
Denmark	119	174	577
Finland	37	46	141
Norway	–	81	268
Total	**3,392**	**3,922**	**14,878**

Demand for data communications was slightly weaker than in 1999. Customer premises equipment, included in the line item for Other, also experienced less demand.

Sales of Internet access increase

Sales of Internet access surged 26%. During the period, the business area formed Telia Internet Partner, a separate company to develop Internet-based services and infrastructure in the business market.

In early April, Telia Internet Partner signed an agreement with the Swedish Internet consulting company Spray. Spray will use Telia's access service when hooking up customers to the Internet. The agreement includes a letter of intent for collaboration on new Internet applications.

Application service provider

The business area is now making efforts to enhance its role as an application service provider (ASP), which entails the development of applications that can be distributed to users over the Internet. As an initial step, a group of Swedish companies were offered a lease on Microsoft Office Online accessed via the Internet.

A contract was signed with the pulp and paper company Stora Enso for the delivery of a global IP-based network that will link 15,000 users within the Group worldwide.

PEOPLE SOLUTIONS

Net sales were down 7% in the first quarter of 2000 compared to the first quarter of 1999 as a result of price cuts averaging 5% and the implementation of the preselect reform in the autumn of 1999.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	4,505	4,856	18,922
of which external	4,216	4,579	17,704
Adjusted operating income	182	408	1,597
Operating income	743	386	1,246
Adjusted EBITDA margin (%)	4.5	8.9	8.9
EBITDA margin (%)	16.9	8.5	7.0
Investments	21	16	111
Sweden			
Net sales	4,411	4,749	18,438
of which external	4,126	4,474	17,245
Adjusted EBITDA margin (%)	5.7	11.2	10.8

Adjusted operating income declined owing to lower prices and lower sales volumes for fixed telephony in Sweden. The Danish and Finnish operations performed better but still reported a loss.

In the Swedish market, traffic volumes from fixed to mobile networks increased, while nationwide and international traffic decreased. The number of conventional fixed subscriptions decreased in Sweden by 47,000, to 4,841,000.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
Fixed telephony	3,801	4,152	16,154
Internet/broadband	234	211	830
Customer premises equipment	257	271	1,021
Other	213	222	917
Total	**4,505**	**4,856**	**18,922**
Net sales by market			
Sweden	4,410	4,749	18,438
Denmark	84	65	294
Finland	11	14	48
Norway	–	28	142
Total	**4,505**	**4,856**	**18,922**

Internet and ISDN maintained robust demand

A growing number of customers are choosing to upgrade their fixed subscriptions to ISDN. Customers signed up for 22,000 new ISDN subscriptions in Sweden, pushing the number of ISDN channels from 195,000 to 241,000 during the period.

The need for faster Internet access is the prime reason for ISDN demand from the household segment. Demand for Internet access remained strong. During the quarter, the People Solutions business area sold almost 40,000 new Telia Internet Access Internet subscriptions. The number of Internet customers reached 590,000, as the business area reaffirmed its position in the consumer market in Sweden.

Many customers who want faster Internet access choose DuoCom, a package that includes Internet access, ISDN, the Telesvar answering service, and caller ID. During the quarter, the number of DuoCom subscriptions surged, from 29,300 to 47,000.

Internet and broadband get separate company

Strong demand for broadband has led the business area to put its resources for broadband, Internet, and content services in a separate company. Initially, the company will concentrate its efforts on developing services for collective access in multifamily housing. Later this year, broadband solutions will be offered to owners of detached homes and other types of individual households. A number of new services were launched, including interactive video-conferencing via web browsers, a solution for multimedia communication via Internet that is the only one of its kind in the world and which the business area developed in collaboration with the Swedish software company KSA. With Microsoft, an agreement was signed on the distribution over the Internet of applications for home use, such as games on demand.

ENTERPRISES

The Enterprises business area, comprising several different business units, expanded net sales 12%, to MSEK 4,046. Adjusted operating income also increased. Stronger income was attributable to telecom investments outside the Nordic countries.

INFORMATION SERVICES

Net sales advanced 33% from the same period the preceding year. The rise in revenue primarily resulted from several telephone directories being published earlier than previously. Directory publishing, the dominant business activity in information services, generates the majority of its revenues in the latter part of the year and thus reports weaker earnings early in the year.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	879	663	4,698
of which external	817	544	4,283
Adjusted operating income	-126	-116	687
Operating income	-126	-112	702
Adjusted EBITDA margin (%)	neg	neg	21.7
EBITDA margin (%)	neg	neg	22.0
Investments	187	62	338

Weaker earnings for the quarter resulted mainly from substantial investment in cable-TV operations to digitalize the network, increase the bandwidth, and develop interactive services.

Directory operations sustained healthy pace of growth

Directory operations continued to grow, through higher advertising revenues from print as well as on-line directories. Orders received for the business directories Emfas (nationwide) and Din Del (local) grew 25% and 30%, respectively.

The number of unique visitors to gulasidorna.se further increased, and the site now has an average of 450,000 unique visitors per month.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
Directory services	467	302	3,146
Directory assistance & Call centers	229	194	946
Cable TV	222	198	808
Other, intercompany sales	-39	-31	-202
Total	**879**	**663**	**4,698**
Net sales by market			
Sweden	678	456	3 618
Denmark	104	87	590
Finland	36	21	206
Norway	18	16	31
Baltic region	20	14	159
Rest of world	23	69	94
Total	**879**	**663**	**4 698**

Directory operations outside Sweden continued growing. During the quarter, an agreement was signed with Ukraina Telecom making Telia the official publisher of telephone directories in Ukraine.

Call center operations increased their sales and are still at a relatively early stage of establishment.

Structural changes

In the quarter, Telia, Schibsted, and Telenor agreed to merge their portals in a single Nordic portal company, in which Telia is expected to own 26%. The aim is to list the company's shares on the stock exchange.

During the quarter, a decision was made to list the directory operations and to divest the Swedish cable-TV operations sometime in 2000.

FINANCIAL SERVICES

Total orders received during the first quarter were 12% less than during the same period in 1999. Orders received for financing Telia's products and services were more or less unchanged, while the orders received for financing external vendors' products, which have risen sharply in recent years, dropped 24%.

The decline in the volumes financed resulted from two events: A portfolio of leases equaling GSEK 1.1 was securitized in February 2000, and at September 30, 1999, the fleet of vehicles under lease, equal to MSEK 477, was divested to GE Capital.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Orders Received and Volumes Financed			
Orders received, Telia's products and services	903	922	4,261
Orders received, external IT vendors	596	785	2,957
of which, home PCs	222	314	996
Volumes financed	6,909	7,800	8,075
Earnings			
Income after financial net	30	121	362
Return on equity (%)	8	33	24

Income after financial net and the return on shareholders' equity deteriorated. The drop in income was mostly owing to costs of converting and commissioning Telia's new billing system.

CUSTOMER EQUIPMENT AND SERVICE

Net sales decreased 2%, taking into account the non-recurring intercompany sales made in 1999 and the divestment of operations in Norway. The level of prices decreased 4%, so volumes increased 2%.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	1,498	1,660	6,565
of which external	786	846	3,585
Adjusted operating income	86	65	452
Operating income	195	45	320
Adjusted EBITDA margin (%)	8.5	5.3	8.5
EBITDA margin (%)	15.8	4.1	6.5
Investments	77	7	167

Demand for CPE and consulting in Sweden was somewhat weaker than in 1999 as a result of the Y2K bug, which held back demand, primarily for systems and local area networks. Demand for support and service increased during the period.

In Finland, sales of mobile terminals increased as a result of aggressive investments made by the Mobile business area to build a nationwide customer base.

Improved profitability resulted from the past two years of efficiency work. At the same time, customer surveys show that the quality of service and the punctuality of deliveries improved during the period.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Net sales by business			
CPE/Consulting	499	685	2,576
Service Audio/CTI	273	257	1,125
Service, IT	514	501	2,092
Installation and other service	212	217	772
Total	**1,498**	**1,660**	**6,565**
Net sales by market			
Sweden	1,362	1,551	5,993
Finland	134	63	380
Norway	–	43	179
Rest of world	2	3	13
Total	**1,498**	**1,660**	**6,565**

TELECOM INVESTMENTS OUTSIDE THE NORDIC COUNTRIES

Investments in fixed and mobile telecommunications outside the Nordic countries increased. Adjusted operating income improved MSEK 1,514 from the same period the preceding year.

The main cause of the improvement was that the Unisource companies no longer pull down the Telia Group's earnings because the majority of the companies were divested in 1999. In addition, the Unisource subsidiary D-plus was sold, contributing a capital gain of MSEK 1,004 for the period.

MSEK	Jan–Mar 2000	Jan–Mar 1999	Full Year 1999
Total			
Net sales	286	305	1,084
of which external	246	269	1,021
Adjusted operating income	577	-937	277
Operating income	577	-937	277
Investments	1,696	1,218	4,255

Netia, the fixed network operator in Poland, achieved better earnings. The average revenue per customer increased while income received a boost from foreign exchange gains.

Most of the associated companies in the Telia Overseas group reported stronger earnings. The biggest improvement came from Tess in Brazil, where the number of mobile customers grew by 76,000, to 421,000 by the end of the period. Tess was also charged with high costs in the form of foreign exchange losses in 1999.

The majority of investments during the quarter were made in Tess to finance license fees.

In the first quarter, a decision was made to divest the shareholding in Eircom.

Parent Company

The parent company Telia AB (registered in Stockholm) conducts the Group's activities in network development, construction, and operation and provides basic production of network services. The parent company also comprises Group executive management functions, several support units, and the Group's internal bank function.

Net sales equaled MSEK 6,333 (6,559), of which MSEK 5,293 (5,701) was invoicing to subsidiaries. Income before appropriations and tax improved, to MSEK 2,895 (995), through the change in the accounting principle for reporting Group contributions received on a quarterly basis.

Net income after appropriations and tax was MSEK 2,155 (264). Equity was MSEK 21,894 (19,739 at December 31, 1999), and retained earnings MSEK 11,284 (9,084).

The balance sheet total expanded, to MSEK 76,070 (73,791). Cash flow from regular operating activities was MSEK 1,312 (-982), while operating cash flow was MSEK -6,844 (-2,897). Net borrowings decreased, to MSEK 11,569 (13,828 at year-end). Liquid funds ended at MSEK 345 (1,368).

The current ratio was 1.06 (1.08 at year-end). The equity/assets ratio (including the equity component of untaxed reserves) improved, to 45.9% (43.8).

The parent company invested MSEK 3,549 (1,976) in fixed assets, including MSEK 777 (806) in machinery and equipment, mainly telecom installations. Other investments totaling MSEK 2,772 (1,170) were primarily attributable to capital infusions in subsidiaries and associated companies.

The number of employees at March 31 was 6,487 (6,514 at year-end 1999).

Auditors' Review Report

We have made a review of this Interim Report in accordance with recommendations issued by the Swedish Institute of Authorized Public Accountants. A review is substantially limited in relation to an audit. Nothing has come to our attention that indicates that this Interim Report fails to comply with the requirements of the Swedish Annual Accounts Act.

Stockholm, May 8, 2000

Ernst & Young AB

Gunnar Widhagen
Certified Public Accountant

Filip Cassel
Certified Public Accountant

Peter Norberg
Certified Public Accountant

Group Income Statements

MSEK	Jan–Mar 2000	Jan–Mar 1999	Apr 1999–Mar 2000	Full Year 1999	Full Year 1998
Net sales	12,857	12,397	52,581	52,121	49,569
Costs of production	-7,751	-7,296	-31,661	-31,206	-30,988
Gross income	***5,106***	***5,101***	***20,920***	***20,915***	***18,581***
Selling, administrative, and R&D expenses	-3,876	-3,861	-14,902	-14,887	-15,045
Other operating revenues and expenses, net	1,510	6	699	-805	4,388
Share of earnings in associated companies	642	-564	1,929	723	-704
Operating income	***3,382***	***682***	***8,646***	***5,946***	***7,220***
Financial net	54	0	88	34	-77
Income after financial net	***3,436***	***682***	***8,734***	***5,980***	***7,143***
Taxes	-1,049	-206	-2,597	-1,754	-2,092
Minority shares	3	4	-5	-4	-40
Net income	***2,390***	***480***	***6,132***	***4,222***	***5,011***

Quarterly Data

	1998				1999				2000
MSEK	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	11,338	12,496	11,871	13,864	12,397	13,066	11,771	14,887	12,857
Adjusted operating income	1,160	1,505	1,194	1,600	817	1,971	1,423	2,516	2,066
EBITDA	2,554	5,273	3,701	2,838	2,528	3,481	3,040	4,549	5,218
Operating income	742	3,466	1,897	1,115	682	1,609	1,150	2,505	3,382
Income after financial net	688	3,469	1,892	1,094	682	1,609	1,244	2,445	3,436
Net income	487	2,415	1,299	810	480	1,118	869	1,755	2,390

Group Balance Sheets

MSEK	Mar 31 2000	Mar 31 1999	Dec 31 1999	Dec 31 1998
Intangible fixed assets	2,104	1,677	2,146	1,844
Tangible fixed assets	33,433	34,261	33,318	34,801
Financial fixed assets	21,825	12,530	18,023	12,553
Inventories etc.	1,209	927	971	946
Current receivables	23,915	17,384	20,369	16,451
Short-term investments	307	309	1,264	202
Cash and bank deposits	512	573	513	481
Total assets	***83,305***	***67,661***	***76,604***	***67,278***
Equity	35,187	29,520	32,893	29,344
Minority shares	508	68	210	210
Provisions for pensions	3,287	2,366	3,246	1,733
Other provisions	7,003	5,883	6,629	6,002
Long-term loans	9,861	6,420	9,123	6,491
Current loans	10,735	9,524	6,934	7,062
Non-interest-bearing liabilities	16,726	13,880	17,569	16,436
Total equity and liabilities	***83,305***	***67,661***	***76,604***	***67,278***

Statements of Changes in Equity

MSEK	Jan–Mar 2000	Jan–Mar 1999	Dec 31 1999	Dec 31 1998
Equity, opening balance	***32,893***	***29,344***	***29,344***	***25,487***
Dividend	–	–	-1,400	-1,210
Capital infusion from outside investors	–	–	613	–
Share of earnings in companies previously outside the Group	29	–	–	–
Differences arising from the translation of foreign operations	-211	-341	19	105
Foreign exchange differences after tax on forward contracts used as equity hedge	86	37	95	-49
Net income for the period	2,390	480	4,222	5,011
Equity, closing balance	***35,187***	***29,520***	***32,893***	***29,344***

Group Cash Flow Statements

MSEK	Mar 31 2000	Mar 31 1999	Apr 1999–Mar 2000	Full Year 1999	Full Year 1998
Cash flow before change in working capital	1,322	2,868	10,506	12,052	10,045
Change in working capital	486	-1,310	-21	-1,817	1,267
Interest	-99	-48	112	163	-915
Cash flow from operating activities	***1,709***	***1,510***	***10,597***	***10,398***	***10,397***
Cash flow from investing activities	-4,306	-3,792	-11,444	-10,930	-8,925
Operating cash flow	***-2,597***	***-2,282***	***-847***	***-532***	***1,472***
Cash flow from financing activities	1,594	2,410	735	1,551	-2,439
Cash flow for the period	***-1,003***	***128***	***-112***	***1,019***	***-967***
Net interest-bearing liability, opening balance	***7,527***	***6,767***	***8,608***	***6,767***	***14,609***
Change in net borrowings	55	1,765	-1,906	-753	-2,642
Change in pension liability	41	76	921	1,513	-5,200
Net interest-bearing liability, closing balance	***7,623***	***8,608***	***7,623***	***7,527***	***6,767***

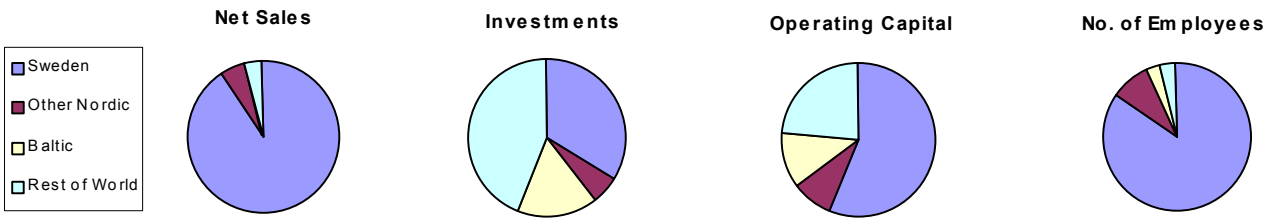
Business Area Breakdown, Jan–Mar 2000

MSEK	Net sales	External net sales	Depreciation and amortization	Adj. operating income	Operating income	Invest-ments	Operating capital	No. of em-ployees
Mobile	2,824	2,317	299	498	509	974	4,730	1,864
Carrier & Networks	6,275	1,389	1,160	1,073	1,395	1,088	25,065	8,181
Business Solutions	3,392	2,775	71	152	866	112	1,405	3,402
People Solutions	4,505	4,216	19	182	743	21	967	4,026
Enterprises	4,046	2,134	262	544	193	2,449	14,546	12,580
Other, Group-wide	-8,185	26	25	-383	-324	0	-5,264	536
Total		***12,857***	***1,836***	***2,066***	***3,382***	***4,644***	***41,449***	***30,589***

Business Area Breakdown, Jan–Mar 1999 (pro forma)

MSEK	Net sales	External net sales	Depreciation and amortization	Adj. operating income	Operating income	Invest-ments	Operating capital	No. of em-ployees
Mobile	2,375	1,858	274	432	417	357	3,848	2,047
Carrier & Networks	6,500	1,036	1,144	1,182	1,173	933	25,577	7,901
Business Solutions	3,922	3,039	87	185	142	39	2,168	3,684
People Solutions	4,856	4,579	25	408	386	16	1,572	4,071
Enterprises	3,625	1,880	304	-923	-575	1,469	10,746	12,142
Other, Group-wide	-8,881	5	12	-467	-861	–	-7,585	739
Total		***12,397***	***1,846***	***817***	***682***	***2,814***	***36,326***	***30,584***

Geographic Segment Breakdown, Jan–Mar 2000



Collateral pledged and contingent liabilities

MSEK	Mar 31 2000	Dec 31 1999
Collateral pledged		
Blocked funds in bank accounts	41	41
Real estate mortgages	2	2
Chattel mortgages	7	7
Shares in associated companies	26	26
Total	***76***	***76***
Contingent liabilities		
Credit guarantees, completion bonds, etc.	1,179	1,182
FPG/PRI	165	161
Other contingent liabilities	273	273
Total	***1,617***	***1,616***

Financial debt instruments

	Book value		Market value	
	Mar 31	Dec 31	Mar 31	Dec 31
MSEK	2000	1999	2000	1999
In the balance sheet				
Long-term loans (excl. derivatives)	9,943	9,134	10,189	9,419
Short-term loans (excl. derivatives)	10,700	6,953	10,763	7,084
Interest swaps received	-500	-843	-23	-44
Interest swaps paid	943	1,043	67	66
Currency swaps received	-5,679	-5,572	-349	-346
Currency swaps paid	5,187	5,188	349	346
Total	***20,594***	***15,903***	***20,996***	***16,525***
Off-balance sheet				
Currency derivatives purchased	3,026	3,382	3,057	3,422
Currency derivatives sold	8,233	8,837	8,186	8,874

Operational Data

	Mar 31 2000	Full Year 1999	Full Year 1998	Full Year 1997	Full Year 1996	Full Year 1995
Infrastructure and market data						
Fixed telephony, PSTN subscriptions, Sweden ('000)	5,861	5,889	5,965	6,010	6,032	6,013
of which, household customers	3,896	3,919	3,901	3,903	3,919	3,922
of which, business customers	1,965	1,970	2,064	2,107	2,113	2,091
Fixed telephony, ISDN subscriptions, Sweden ('000)	687	630	424	244	129	49
of which, household customers	80	53	23	–	–	–
of which, business customers	607	577	401	244	129	49
Fixed telephony, domestic calls, Sweden (millions of minutes)	8,602	35,200	35,600	31,700	30,500	30,500
Fixed telephony, intl. calls, Sweden (millions of minutes)	131	570	600	660	670	680
Fixed telephony, calls to mobile phones (millions of minutes)	357	1,480	1,270	1,110	890	750
Internet subscriptions, Sweden ('000)	659	613	457	230	105	9
of which, household customers	464	438	323	160	73	6
of which, business customers	195	175	134	70	32	3
Mobile telephony subscriptions, Sweden ('000)	2,778	2,638	2,206	1,935	1,745	1,438
of which, household customers	1,674	1,557	1,203	985	927	791
of which, business customers	1,104	1,081	1,003	950	818	647
of which, GSM contract	1,478	1,425	1,390	1,180	824	463
of which, GSM prepaid cards	1,039	923	313	–	–	–
of which, NMT900	105	130	316	542	686	718
of which, NMT450	156	160	187	213	235	257
Mobile telephony, outgoing traffic, Sweden (millions of minutes)	587	2,187	1,745	1,554	1,221	1,046
Mobile telephony, incoming traffic, Sweden (millions of minutes)	377	1,416	1,091	885	677	612
Mobile telephony, SMS messages, Sweden ('000)	25,003	45,810	13,167	4,104	–	–
Mobile telephony, churn, Sweden (%)	9	9	14	12	n/a	n/a
Mobile telephony, ARPU in Sweden (SEK)	314	332	362	345	367	399
contract only	438	407	381	345	367	399
Mobile telephony subscriptions, Denmark ('000)	179	170	112	–	–	–
Mobile telephony subscriptions, Finland ('000)	78	33	8	–	–	–
Human Resources						
Number of employees	30,589	30,643	30,593	32,549	34,192	33,065
Average number of full-time employees	29,572	29,546	31,320	33,930	34,031	32,825

Accounting Principles

For the first quarter as well as in the most recent annual report, the Telia Group's accounts have been prepared in accordance with the Swedish Annual Accounts Act and applying International Accounting Standards (IAS). In the balance sheet, pension obligations have been reduced by the market value of funds reserved for Telia's pension funds. The accounts for the parent company Telia AB were prepared in accordance with Swedish legislation and generally accepted accounting principles in Sweden.

IAS 39, "Financial Instruments," takes effect on January 1, 2001. No evaluation has been made of the effect on income, if any, that would result from the application of IAS 39.

When selling fiber and ducts in the Group's international carrier business, title has not been transferred to the lessee. For such transactions, IAS 17 does not provide clear-cut rules on how to classify the agreements as financial or operating leases. However, U.S. GAAP (FIN 43) stipulates that title must be transferred for the sale of integral equipment to be reported as a financial lease. In the Group accounts, Telia has with the indicated literature in mind chosen to report the transactions as operating leases.

During the first quarter, a portion of the Group's leasing receivables was securitized. IAS practice (application of SIC-12) is uncertain and in the development stage. U.S. GAAP (FAS 125) stipulates, considering the terms of the securitization agreements entered into, that the leasing receivables be consolidated. Telia has, in the first quarter Group accounts, chosen to consolidate the securitized leasing receivables.

At the start of the year 2000, a new business organization was introduced in the Group. Comparative figures specified in this report for the business areas have been restated pro forma.

Definitions

Adjusted operating income. A level of earnings for following up on the Group's business segments. Operating income before capital gains/losses (excluding capital gains/losses from telecom investments outside the Nordic countries), costs of personnel restructuring (including contractual pension obligations), some common pension commitments, year 2000 compliance, and the preparations for integration with Telenor.
EBITDA. Operating income with depreciation, amortization, and write-downs added back.
Adjusted equity. Reported equity less the proposed dividend.
Capital employed. Balance sheet total less non-interest-bearing liabilities, non-interest-bearing provisions reported, and the proposed dividend.
Operating capital. Capital employed excluding financial assets but including shares in associated companies and non-interest-bearing accounts receivable.
Net interest-bearing liability. Interest-bearing liabilities and provisions less interest-bearing assets but including shares in associated companies.
Net borrowings. Interest-bearing liabilities less interest-bearing assets but including shares in associated companies.
Adjusted EBITDA margin (adjusted gross margin). Adjusted operating income plus depreciation, amortization, and write-downs expressed as a percentage of net sales.
EBITDA margin (gross margin). Operating income plus depreciation, amortization, and write-downs expressed as a percentage of net sales.
Operating margin (EBIT margin). Operating income expressed as a percentage of net sales.
Rate of turnover of capital. Net sales divided by the average balance sheet total.
Return on capital employed. Operating income plus financial revenues expressed as a percentage of average capital employed.
Return on equity. Net income expressed as a percentage of average adjusted equity.
Equity/assets ratio. Adjusted equity expressed as a percentage of the balance sheet total.
Debt/equity rate. Net interest-bearing liabilities divided by adjusted equity.
Interest coverage rate. Operating income plus financial revenues divided by financial expenses.
Current rate. Current assets divided by current liabilities.
Net cash flow. Increase (–) or decrease (+) in net interest-bearing liabilities.
Per share data. Earnings per share are based on the weighted average number of shares, while dividend, equity, and net asset value per share are based on the number of shares at the end of the period.
ISDN channels. Each basic access is counted as two channels, and every primary access as 30 channels.
Churn. Number of customers that have left the company expressed as a percentage of the average number of customers.
ARPU. Average monthly revenue per subscriber.

Financial Information from Telia

All financial reports are produced in Swedish and English by Telia AB, Investor Relations. Please direct questions on the content of these reports to: Telia AB, Investor Relations, SE-123 86 Farsta, Sweden, or by fax to +46 8 933 801.
Reports can be ordered by mail from: Telia AB, Tryck-sakslagret, SE-123 86 Farsta, Sweden, or by fax from: +46 8 604 5472.

Reports are also published at www.telia.se.

To conform to Swedish and international standards, this report applies the following notations:

Currencies:	Swedish kronor	SEK
Prefixes:	Millions	M
	Billions	G